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FISCAL IMPACT STATEMENT

LS 7512

BILL NUMBER: HB 1216

NOTE PREPARED: Mar 28, 2011

BILL AMENDED: Mar 28, 2011

SUBJECT: Public Works Projects.

FIRST AUTHOR: Rep. Davis

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☒ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) This bill provides that plans, specifications, and contract documents for a public works contract may not:

1. Require a bidder, contractor, or subcontractor to enter into or comply with an agreement with a labor organization on the same or a related public works project; or
2. Discriminate against a bidder, contractor, or subcontractor for refusing to enter into, remain signatory to, or comply with an agreement with a labor organization on the same or a related public works project.

It provides certain interested parties a cause of action to enforce this prohibition.

The bill provides that a public question may be placed on the ballot along with a public question relating to issuance of bonds or other evidence of indebtedness by a political subdivision asking whether the prohibition should be suspended and union-only contracts be authorized for any public works projects financed from the bond or lease proceeds.

The bill raises the threshold for the application of the common construction wage statute from \$150,000 to \$250,000 for contracts awarded after December 31, 2011, and before January 1, 2013, and to \$350,000 for contracts awarded after December 31, 2012. It provides that a common construction wage committee must consider any written reports with respect to wage scales submitted by the Indiana State Building and Construction Trades Council or the Associated Builders and Contractors of Indiana when making a determination of the common construction wage for a public works project.

The bill provides that reports and other information submitted to a common construction wage committee must include a written affirmation under the penalties for perjury.

The bill provides that a public works project may not be artificially divided to avoid application of the common construction wage statute.

The bill makes technical changes.

Effective Date: July 1, 2011.

Explanation of State Expenditures: (Revised) The requirement that plans, specifications, and contract documents for a public works contract may not require a contract to enter into or comply with an agreement with a labor organization could possibly reduce the cost of a project.

Increasing the threshold for the application of the common construction wage statute from \$150,000 to \$250,000 for CY 2012 and \$350,000 for CY 2013 and after would increase the number of projects not subject to common construction wage.

The cost of inclusion of a public question of whether to allow the political subdivision to enter into a union-only contract for any public works projects paid for through a public works project referendum should have no additional fiscal impact.

Background: Common Construction Wage - A number of studies suggest that wage determination provisions generally increase the labor cost of public works projects from 5% to 16%, and exemption from this wage determination provision might reduce expenditures. The precise impact of the change cannot be determined. Some studies argue for prevailing wage-type systems on the grounds that they lead to greater efficiency, quality, and safety by providing for a stable, well-trained labor force. If such benefits were not realized, school corporations and universities could realize an increase in cost in the long run. Unfortunately, data limitations and questionable methodology limit the conclusiveness of many studies on prevailing wage laws.

Additional Impact: If, as some studies have shown, common wage requirements increase the costs of labor to the state, then lower wages due to the exemption may have the following effects:

- State income tax collections could decrease (assuming no increase in employment levels), decreasing consumption and further decreasing sales tax revenue.
- Debt incurred to finance projects could decrease due to lower project costs, reducing bonding or property taxes.
- Funds may be available for other public works projects that would have been required for the project. Similarly, capital expenses could be reduced, making more funding available for noncapital expenses in project budgets.

The 2009-2011 biennium budget bill authorized about \$475.2 M in bonding for state educational institutions, and the 2007-2009 biennium budget bill authorized about \$518.2 M.

School corporation construction projects have varied between \$858 M and \$1.7 B over the last eight years.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: State agencies constructing public works projects.

Local Agencies Affected: Local units constructing public works projects.

Information Sources:

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